

Real Estate Strategic Outlook: UK

Reset Today, Recovery Ahead

Markets adjust as uncertainty rises

The UK real estate market moves into mid-2026 against a more fragile macroeconomic backdrop than anticipated at the start of the year. Economic momentum has weakened, with fiscal constraints and external shocks, most notably the conflict in the Middle East, reigniting inflation concerns and shifting the monetary policy outlook. Market expectations have reversed, from a consensus on continued rate cuts to pricing in hikes. The DWS CIO view is for a single 25 basis points increase later this year.¹ The UK's relative exposure to inflation has driven a sharper rise in government bond yields compared with European peers, while increased domestic political uncertainty has added a further premium to swap rates and longer-dated borrowing costs. Elevated currency hedging and debt costs continue to weigh on returns for international investors, reducing the relative attractiveness of UK real estate on a risk adjusted basis in the near-term.

As a result, sentiment has softened and transaction activity has slowed. While prime yields have held largely stable over 2026 to date, aside from modest outward shift in the Living sectors, we anticipate some softening through the remainder of the year. However, looking beyond the near-term volatility, the expected resumption of the rate-cutting cycle from 2027 onwards should provide a more supportive backdrop. Against this improving medium-term outlook, selective opportunities continue to emerge across UK real estate.

Office: London continues to lead rental growth

We maintain a strong conviction in the Central London office market. Fundamentals continue to strengthen, with Grade A availability tightening, occupier demand remaining resilient and replacement rents up to 25% above current prime levels, supporting strong rental growth (Chart 1). While blue-chip tenants are expected to absorb these rents, others will increasingly seek more affordable options without compromising on location. This underpins a compelling opportunity to refurbish well-located Grade B assets to a 'Grade A-minus' standard, capturing rental reversion and enhancing income. The opportunity spans both the West End and City, although higher entry yields in the City suggest greater scope for yield compression and stronger total returns.

In core West End submarkets, mixed-use assets combining office and retail are increasingly attractive, offering diversified income streams and additional repositioning potential. These assets can leverage strong office fundamentals while benefiting from improving retail dynamics. Indeed, vacancy has fallen below pre-pandemic levels, supported by the return of both tourists and office-based workers. This is driving rental growth in prime Zone A pitches, where we see opportunities to acquire under-rented, attractively priced assets.

Chart 1: Central London Prime Office Rents (£ per sq ft)



Source: DWS, PMA May 2026

Living: Pricing pressures reinforce selectivity

While occupier fundamentals across the UK Build-to-Rent sector remain supportive, the investment case has become more challenged. Policy changes, notably the Renters' Rights Act, combined with tight pricing, have compressed returns and we expect some near-term yield softening for stabilised product. In London, viability challenges, further exacerbated by the Building Safety Act, have curtailed new development. Against this backdrop, value-add strategies, particularly refurbishment or change of use, offer a more attractive way to deliver much needed housing, including affordable housing and operational residential formats such as co-living.

Price correction has already begun across UK Purpose-Built Student Accommodation, reflecting softer international demand and weaker occupancy. While PBSA is therefore becoming more attractive on a relative price basis, offering a spread of up to 100 basis points over BTR, we remain highly selective, focusing on well-located, mid-market schemes in Russell Group cities where fundamentals are more resilient.

Logistics: Multi-let offers a core alpha return profile

Urban multi-let assets remain the preferred strategy, offering a defensive income profile supported by low vacancy, limited speculative development and tenant diversification. Shorter leases and rolling tenancies enable landlords to capture rental growth more effectively, particularly through active asset management, with a focus on well-connected assets near key urban hubs.

By contrast, while UK Big Box logistics still offers relatively attractive pricing, with prime yields above 5%, elevated Grade A vacancy will likely temper rent growth. Performance is location-dependent, with the Golden Triangle remaining best placed given its strong demand drivers.

¹ DWS CIO View, May 2026

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